MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2019/2020

BFN 2054 – PORTFOLIO MANAGEMENT

(All sections/ Groups)

29 FEBRUARY 2020
(2.30 P.M. – 4.30 P.M.)
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of **2** pages excluding cover page with **5** questions.
2. Attempt all the questions. The distribution of the marks for each question is given.
3. Please answer all questions in the Answer Booklet provided.

Please Answer All the Questions

Question 1: (20 marks)

The real rate of return has been estimated to be 2 percent under current economic conditions. The 30 days risk free rate (annualized) is 5 percent. Twenty-year government bonds currently yield 8 percent. The yield on 20 year bonds issued by the Hop Berhad is 14 percent. Investor require an 18 percent return on Hop Berhad's common stock. The common stock of Dates Products has a required return of 20 percent.

a) Compute and identify
1) inflation risk premium (4 marks)
2) maturity risk premium (4 marks)
3) default risk premium (4 marks)
4) seniority risk premium (4 marks)

b) What might account for the difference in the required returns for Dates versus Hop?

(4 marks)

Question 2: (20 marks)

The Alpha Tool Corporation has never paid a dividend, but the new company president has announced that the firm would pay its first dividend exactly two years from grow by 15% for the following three years, and by 10 percent for the two years after that. No explicit dividend forecast is available beyond that point in time, although the firm is expected to continue to pay some dividends every year. The stock's current price to earnings (P/E) multiple is 15 times. The company (and investigators) expect the P/E multiple to remain constant for the foreseeable future. Earnings per share at the end of year 6 are expected to be RM7. The company's marginal tax rate is 40% and the firm has a capital structure consisting of 40 percent debt (at a pretax cost of 20 percent) and 60 percent common equity. If you require a 15 percent rate of return on this stock, how much would you pay for one share of stock today?

Question 3: (20 marks)

Hooks Athletics, Inc., has outstanding a preferred stock with a par value of RM30 that pays a dividend of RM2.50. The preferred stock is redeemable at the option of the stockholder in 10 years at a price equal to RM30. The stock may be called for redemption by the company in 15 years at a price equal to RM32.50 (any stock that is not redeemed at the end of 10 years can be expected to be called by the company in 15 years.) If you know that investors require a 15 percent pretax rate of return on this preferred stock, what is the current market value of this preferred stock?

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Question 4: (20 marks)

a) Three Rivers Investment Company desires to construct a portfolio with a 20 percent expected return. The portfolio is to consist of some combination of Security X and Security Y, which have the following expected returns, standard deviations of returns, and betas;

	Security X	Security Y
Expected Return	15%	26%
Standard Deviation	10%	20%
Beta	0.94	1.33

Determine the expected beta of the portfolio. **(15 marks)**

b) Suppose you are looking at the risk-adjusted performance of the stock of a particular company. Does it make any difference if you use the Sharpe measure as opposed to the Treynor measure? **(5 marks)**

Question 5: (20 marks)

a) Portfolio management is really a process of continual portfolio revision. Do you agree with this statement?

(10 marks)

b) List the major factors influencing the price of gold. What are the principal means by which someone can invest in gold? **(10 marks)**

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